

Service Date: July 5, 2001

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of the)	UTILITY DIVISION
MONTANA POWER COMPANY for Authority)	DOCKET NO. D2000.8.113
to Increase Rates for Electric and Gas Service)	ORDER NO. 6271d
)	

**ORDER ON
MOTION FOR RECONSIDERATION OF ORDER 6271c
FROM THE MONTANA CONSUMER COUNSEL**

BACKGROUND

1. The Commission issued Final Order 6271c in the above captioned proceeding on May 9, 2001. Montana Consumer Counsel (MCC) requested reconsideration or clarification for Shared Administrative Services (SAS) costs and the revenue adjustment for Montana Resources, Inc. (MRI) load loss.

SHARED ADMINISTRATIVE SERVICES

History

2. MCC, in its initial testimony, proposed to remove the reassigned plant and expenses. MCC proposed to adjust the rate base by reversing the entire amount of MPC's adjustment for SAS plant.
3. MPC, in its rebuttal testimony, stated that the proposed adjustment by MCC would disallow all of the costs of the administrative buildings and associated equipment in Butte. MPC reduced the rate base by \$12,862,815 for an accidental "double count" of SAP R-3 software.

4. MCC, in its response to Data Request MPC-2, stated that it was not the intention of MCC to provide a \$0 allowance to the utilities for general office plant in Butte. MCC stated the appropriate disallowance of plant and expenses is the same level of plant and expenses necessary to provide the utilities the same level of plant and expenses that they were responsible for prior to the divestiture of the unregulated subsidiaries.

5. MCC, in its initial brief, acknowledged that their proposed initial adjustment would reduce the general plant in Butte to \$0 and that the original proposed MCC adjustment would be inappropriate. In this initial brief, MCC first proposed a percentage adjustment for SAS based on MPC's 2000 budget of the allocated buildings costs. The percentages were from MCC-237. MCC calculated the regulated utility portion of SAS (37.44% electric, 15.51% gas) assuming that the total SAS was \$34,988,804. MCC requested a revenue adjustment, but did not request a rate base adjustment.

6. MPC stated in its reply brief that MCC was simply wrong and that the \$34,988,804 was related to utility operations only. MPC pointed that error out, and stated that the SAS expenses should not be removed as the costs are incurred exclusively by MPC to provide utility service.

7. MCC in its reply brief argued that the proposed MCC percentage adjustment to rate base should be accepted.

8. MCC, in its Motion for Reconsideration, is arguing that MPC made an incomplete response to MCC-237 and that MCC's adjustment was wrong because of it.

9. MCC is stating that it does not understand the statement that MPC's adjustments to the rebuttal testimony are greater than the corrected amounts proposed by Mr. Clark. MCC went on to state that the only adjustment made in MPC's rebuttal testimony was the double count related to software, and that MCC had previously noted and accounted for the double count.

10. MCC is basing its percentage calculation on \$46,780,874, the total SAS plant including the Hennessey Building but not including dispositions and the SAP software.

11. MCC is asking for a rate base reduction of \$2,346,868 for the electric utility rate base and \$2,243,129 for the gas utility rate base. MCC also asked for a revenue requirement reduction of \$316,259 for the electric utility and \$327,531 for the gas utility. Subsequently, MCC has amended its revenue requirement request for electric to \$328,691.

Discussion

12. MCC's entire pursuit of the SAS adjustment has been a series of errors. First MCC proposed reversing all the general plant and expenses, then MCC proposed a percentage computation on the wrong amount of plant, and finally, in the reconsideration request itself, the dollar amount requested for the revenue adjustment was miscalculated.

13. MCC contends that in Data Request MCC - 237(a) MPC failed to supply all of the information requested. Did they? MCC, in Data Request 237a, requested a breakdown of the dollar amount of the SAS plant (\$47,851,620) for the General Office building, the Thornton building, the Energy building, and the Hennessey building. MPC in its response reconciled their request of \$34,988,804 to the \$47,851,620 by eliminating the \$12,862,815 "double count" of SAP R-3 software. MPC reconciled to the figure that MCC requested, but did not include the Hennessey Building. On the schedule attached to Data Request 237, there is no mention of the Hennessey Building. MCC should have noticed the exclusion. MPC reconciled to the dollar amounts MCC requested in Data Request MCC - 237 and believed it had complied with the request of the MCC. The information requested by MCC for the building values was readily available in D. R. Reardon's Rebuttal workpapers on pages 2 and 3 of 18.

14. MCC states that it does not understand the statement in ¶ 111 of the Final Order 6271c that "MPC's adjustments to rebuttal testimony are greater than the corrected amounts proposed by Mr. Clark." MCC's original SAS entry reversing MPC's adjusted revenue requirement was in error so should be reversed. MCC admitted the entry was incorrect. The "corrected" proposal by MCC then would be matched against MPC's original revenue requirement - which included the double count for SAS software. So MPC's revenue requirement is less than MCC's "corrected" adjustment. All this is moot, however, as explained in ¶ 16 of this order.

15. MCC had the opportunity in hearing to introduce its adjustment for SAS. However, it introduced its methodology for the proposed SAS adjustment in the initial brief, with incorrect SAS after the hearing, not giving MPC opportunity to cross-examine the methodology, but only argue against it in the rebuttal brief. The purpose of the post hearing briefs is to reiterate the parties' positions and reasons for those positions, not to propose new adjustments. MCC's opportunity to do that was gone. MPC was denied the opportunity to support its SAS adjustment to the regulated utility rate base.

16. The Commission considered that, theoretically, MCC's proposed adjustment could be correct, but only if all overhead costs were variable. Overhead is not a variable cost, but a stair stepping of fixed costs. When a company divests itself of a portion of its operations, most of the Administrative and General costs remain to be reallocated.

17. MCC was given ample opportunity to provide its adjustment at any time up through and including the hearing but failed to do so. In MPC's response to the Motion for Reconsideration, MPC supplied the basis of its SAS adjustment entry, the original transfer to SAS from the utility business.

Commission Decision

18. If the Commission were to consider allowing MCC's proposed adjustment, it would then have to allow MPC equal and ample time to argue their SAS adjustment. The Commission denies the reconsideration for the SAS for two reasons. 1) The logic used in the adjustment proposed by MCC is flawed, there is not an exact correlation between reduction in operations and reductions in overhead and 2) MCC failed throughout testimony and hearing to support its proposed adjustment.

MONTANA RESOURCES, INC. ADJUSTMENT

History

19. On May 22, 2001, MCC requested reconsideration of a revenue requirement adjustment to reflect the loss of the Montana Resources, Inc. (MRI) load. MCC made reference to 38.5.106 of the Administrative Rules of Montana. The Commission rejected storage gas sales adjustments based on 38.5.106.

20. MCC quotes a portion of 38.5.106 which states: "that no adjustment shall be permitted unless based on changes in facilities, operations, or costs which are known with certainty and measurable with reasonable accuracy at the time of the filing." According to MCC the application of 38.5.106 should preclude adoption of the electric revenue adjustment since that was the reason for excluding the natural gas storage gas sales adjustments. MCC argues to exclude the MRI adjustment as inconsistent with the Commission's finding on storage gas sales adjustments.

21. On June 4, 2001, MPC filed comments in response to MCC's Motion for Reconsideration. MPC stated that MCC's argument focused on the first part of A.R.M. §

38.5.106, which states that adjustments must be known and measurable at the time of filing. However, MCC failed to consider the remaining part of that regulation, which was noted by the Commission in Finding of Fact No.155 that no adjustment will be entertained unless it will become effective within 12 months of the last month of the test period as used in this section.

22. MPC stated in its comments that it received notice from MRI that it was cutting back its production in August 2000, too late to include it in the filing. However, the loss of load did occur within 12 months of the test year. MPC's rebuttal filing included several adjustments to amounts in the original filing based on more current information. This is standard practice in rate cases before the Commission. The storage gas sales adjustment is different that the MRI adjustment in that much of the equipment necessary for the sale was put into production in 2001, outside of the 12 month test year cut off.

23. Finally, MPC noted that MPC did not cross-examine Ms. Hansen regarding the MRI adjustment at the hearing nor did MCC address the issue in its initial brief.

Discussion

24. The Commission fails entirely to see any inconsistency between its treatment of the storage gas sales adjustment and the MRI revenue adjustment. The storage gas sales adjustments included plant that was added more than twelve months beyond the end of the test year. In contrast, the MRI revenue adjustment fell within twelve months of the test year.

25. As to the fact that the MRI revenue adjustment was not known at the time of the filing, the Commission has previously found that an adjustment for load loss should be included in the final revenue requirement for a Company.

26. In Docket No. 80.4.2, Order No. 4714a, the Commission made the following Findings of Fact related to a Loss of Market: "MPC filed supplemental testimony in June, 1980 to reflect the loss of contract or "off line" sales volumes of 1.671 billion cubic feet (Bcf) annually to Northern Natural Gas Company. The Commission finds the partial loss of Northern Natural Gas sales volumes to be a known and measurable change and accepts it."

Commission Decision

27. As it did in Docket No. 80.4.2, the Commission finds that the MRI revenue adjustment is a known and measurable change within twelve months of the test year and accepts it. MCC's Motion for Reconsideration of the MRI revenue adjustment is denied.

CONCLUSIONS OF LAW

1. Montana Power Company furnishes electric and gas service for consumers in the State of Montana, and is a “public utility” under regulatory jurisdiction of the Montana Public Service Commission. Section 69-3-101, MCA.
2. The Montana Public Service Commission properly exercises jurisdiction over Montana Power Company’s rates and operations. Section 69-3-102, MCA, and Title 69, Chapter 3, Part 3, MCA.
3. The Montana Public Service Commission has provided adequate public notice of all proceedings, and an opportunity to be heard to all interested parties in this Docket. Sections 69-3-303, 69-3-104, MCA, and Title 2, Chapter 4, MCA.

ORDER

1. The Montana Consumer Counsel's request for reconsideration of the Shared Administrative Services is denied.
2. The Montana Consumer Counsel's request for reconsideration of the Montana Resources, Inc. load loss adjustment is denied.

DONE AND DATED THIS 3rd day of July, 2001 by a vote of 4 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

GARY FELAND, Chairman

JAY STOVALL, Vice Chairman

MATT BRAINARD, Commissioner

BOB ROWE, Commissioner

ATTEST:

Rhonda J. Simmons
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.